# Chapter 2

## What Is Organizational Capacity for Change?

It is not the strongest of the species that will survive, nor the most intelligent, but the one most responsive to change.

   - Charles Darwin

The only person who likes change is a wet baby.

   - Price Pritchett

If the leader's new mandate is to prepare for change in the future while delivering results in the present, then what specific preparation is required? My central thesis is that the strategic leader's preparation for the future entails building organizations' capacity for change, and that is the focus of the remainder of this book. In other words, this book is about helping executives fulfill the strategic leader's new mandate.Bossidy and Charan (2002).

The business press is filled with many recent and ongoing stories of organizations that failed to adapt and change to an increasingly fluid and unpredictable environment. Indeed, a widely cited statistic is that "more than 70% of all organizational change initiatives fail."Higgs and Rowland (2005), p. 121. Nonetheless, one of the arguments why senior executives are worthy of the lofty compensation packages that they currently command is based on the widely-held view that effective leaders and change agents are rare, but essential to cope with the volatile and hypercompetitive environments that many organizations find themselves in today.Kaplan (2008), p. 5.

In response to this pressure to change, scholars and consultants are increasingly focusing on the nature and dynamics of organizational change in an effort to distill lessons learned from previous successes and failures, and provide guidance to change agents to improve their future success rate. Notably, in a recent online search of articles written on "organizational change" in the last 20 years, I discovered that there were more than 25,000 articles published in a prominent online search engine named Proquest.ProQuest Research Library (2010). This suggests to me that the topic is of great importance to those seeking to change

organizations, but that much that is written about organizational change by organizational scholars is not improving our success rate. In sum, there is more to be learned about this important subject and this book attempts to fill that gap.

## 2.1 Primary Reasons for Failure to Bring About Change

I believe that there are three primary reasons for our poor track record in changing organizations. One of the primary reasons for the failure of both scholars and practitioners to successfully develop and utilize a comprehensive yet parsimonious approach to organizational change is our collective failure to understand the systemic nature of change. Too often, organizational members operate in "departmental silos" that focus on local optimization at the expense of the entire system. Furthermore, the senior executives in charge of the overall organizational system (as well as the academics who study them) often fail to understand the interdisciplinary nature of their organizations as they are trapped in the myopia of their own backgrounds or disciplinary blinders.

Organizations are complex, interdependent social entities with relationships operating both within its boundaries and outside of its boundaries. Too many practitioners, in their "bias for action," focus on a single dimension of organizational life or a single lever of organizational change. **Change agents**[1] need to be reflective, as well as capable of influencing others. Organizational leaders need to be comprised of confident but humble CEOs and by well-functioning top management teams who collectively understand the entire organization, not a lone wolf with a reputation for individualism and boldness.

A second reason why so many change initiatives fail is that organizational change takes time, and time is one of the most precious commodities in the 21st century. In a recent article written by myself and a former doctoral student, we argued that organizations no longer have the luxury to go offline while the new information system is being built, the foreign venture is being launched, or the new technology is being analyzed. As such, change agents must "rewire" the plane while it is flying if the organization hopes to survive and perhaps prosper in the future.Judge and Blocker (2008), p. 915. Clearly, this is no easy task when everyone around you is arguing for you to "hurry up"!

A third reason why so many change initiatives fail is that our conception of what makes us human is overly mechanistic, narrow, and limited. Our traditional view of organizations is that they are hierarchies with power concentrated at the top with rational and logical employees operating throughout this hierarchy. While it is true that all organizations are hierarchical in some form and that organizational members are rational at times, this viewpoint is limited and not terribly realistic.

1. Middle- and senior-level managers who drive the change initiatives within an organization. They are uniquely charged both with generating short-term tangible results and building long-term organizational capabilities.

Organizational change is not only a rational activity but also an emotional one that challenges deep-seated human fears and inspires human hope. Indeed, John Kotter recently argued that change is predominantly about matters of the heart, not the head.Kotter and Cohen (2002). Organizations can operate in mechanical ways, but they also comprise living human beings who want meaningful work that allows them to "have a life" outside of work. As such, by assuming that all organizational change is rational and logical in nature where fear, political positioning, and turf wars rage, one wonders why any change initiative might work.

## 2.2 The Typical Reaction to Challenging Environmental Pressures

In my executive education classes and consulting projects, I ask my students and clients what their planning horizon is since strategic leaders are responsible for the long-term performance of their organizations. One response by the president of a major nonprofit medical center is instructive: "Ten years ago, my planning horizon was 5 years into the future. Five years ago, it was 2 years. In today's environment, where health care reform is the flavor of the day, it is now down to 2 months." Another CEO of a Fortune 500 chemicals company told me, "There is merciless pressure to deliver the financial results that Wall Street expects each and every quarter. Even though Wall Street denies this, our stock price often gets punished by looking beyond the next 3 months."

Both of these quotations from CEOs, one from the nonprofit sector and the other from the for-profit sector, imply that the best that senior executives can do is to respond quickly to an increasingly volatile and demanding environment. While I agree that organizations today must be more "nimble" in reacting to such things as unexpected competitor moves, a seemingly short-term focus by the owners of the organization, and unpredictable "disruptive" technologiesChristensen (1997). that change the competitive dynamics of an industry overnight, this focus is overly narrow and too reactive. To succeed in the 21st century, organizations today must not only nimbly and flexibly respond to their changing environments but also build capacity for change.

## 2.3 Organizational Capacity for Change Defined

**Organizational capacity for change (OCC)**[2] can be conceptualized as the overall capability of an organization to either effectively prepare for or respond to an increasingly unpredictable and volatile environmental context. This overall capability is multidimensional, and it comprises three ingredients: (a) human skill sets and resources, (b) formal systems and procedures, and (c) organizational culture, values, and norms. As such, OCC is *a dynamic, multidimensional capability that enables an organization to upgrade or revise existing organizational competencies, while cultivating new competencies that enable the organization to survive and prosper*.

Peter Vaill argued that organizations increasingly operate in "white water" where executives have only partial control, yet effective navigation of a boat on the rapids requires everyone in the boat to react efficiently and effectively to the white water all around them.Vaill (1991), p. 2. While I like this metaphor, I would add that the navigator must also prepare the boat and the rest of the team for the oncoming white water.

Robert Thames and Douglas Webster use a different metaphor to describe the context in which firms operate today, namely—a hurricane or an earthquake. They state,

To many organizations, change comes like a hurricane season. Everyone knows it's coming. It is the same every year. The only thing we don't know is "Who will it hit this time?"...To other organizations change comes like the earthquake. We may never see it coming but have this nagging feeling that it is.Thames and Webster (2009), pp. 11–12.

Whether your industry or national economy seems like white water rapids, an oncoming hurricane, or a potential earthquake, organizations must prepare in advance, not just react when the "environmental jolt" is experienced. That advance preparation is what I am calling organizational capacity for change. Organizations with relatively high change capacity can successfully shoot the rapids, weather the hurricane, or continue operating during and after a devastating earthquake. Organizations with relatively low change capacity are at the mercy of their environment and much more subject to luck and chance.

I have been researching the nature of organizational capacity for change in hundreds of organizations in a wide variety of industries for over 10 years. In previous research I have found that the higher the aggregate organizational

2. An organization's overall capability that enables it to upgrade or revise existing organizational competencies while cultivating new competencies that enable the organization to survive and prosper.

capacity for change is, the higher the subsequent environmentalJudge and Elenkov (2005). and financial performance.Judge, Naoumova, Douglas, & Koutzevol (2009). In other words, organizational capacity for change is positively correlated with, and is likely to lead to, superior financial and environmental performance.

In addition, I have also found that the importance of organizational capacity for change increases with the volatility of environmental uncertainty. In other words, common sense and systematic empirical research show that the more your environment is changing, or is about to change, the more important your organizational capacity for change is.

Finally, after reading literally hundreds of articles and dozens of books on organizational change, I have been able to distill the concept of organizational capacity to change down to eight separate and distinct dimensions.Judge and Douglas (2009). These dimensions are briefly described in the sections that follow, but they will be more extensively discussed in later chapters.

## 2.4 The Eight Dimensions of OCC

**Trustworthy leaders**[3]. No lasting, productive change within an organization ever happens without a modicum of trust between its members. As a consequence, the first essential dimension for OCC is the extent to which an organization is perceived to be led by trustworthy leaders. A trustworthy leader is someone who is not only perceived to be competent in leading the organization but also perceived as someone who has the best interests of the organization as their priority. This is why Jim Collins found that organizations that were changing for the better tended to be led by senior executives who were perceived to be humble servants of the organization, but were also passionate about ensuring a bright future for the organization.Collins (2001). Organizational change is risky. In order for employees to change their perceptions and behaviors, they have to trust their leaders. As such, a proven record of trustworthiness on the part of the leaders is essential to bring about experimentation with a new order of things.

**Trusting followers**[4]. Leaders are only half of the equation when it comes to organizational change; the other half is the followers. I once worked with an executive at Alcoa who was perhaps one of the most trustworthy executives I ever met. He was honest to a fault, a first-rate engineer, who worked his way up through the executive ranks to a prominent leadership position. He had a deep and sound understanding as to where his business unit needed to change, but he had a problem—his plant was highly unionized and it had a long history of management missteps and labor union outrage. Interestingly, the union leaders did trust this particular plant manager, but they didn't expect him to stay there long and they did expect corporate headquarters to replace him with someone who was not trustworthy. As a result, this business unit had a leader who was perceived to be trustworthy, but the ubiquitous lack of trust on the part of the rest of the organization prevented any major change initiative from progressing.

Psychologists tell us that all individuals have a "disposition to trust" others.Cook (2001). This disposition is influenced by such things as a person's genetic background, family norms, and work-related experiences. When an organization is filled with a critical mass of individuals who are hopeful, optimistic, and trusting, it will be well positioned to experiment with new ways of operating. When an organization is dominated with a critical mass of individuals who are cynical, pessimistic, and not trusting, it will not be well positioned to engage with organizational change initiatives. In sum, a second key dimension of organizational capacity for change is the overall level of trust held by the employees of the organization.

3. An individual who is perceived to be competent in leading an organization and who is also perceived as someone who has the best interests of the organization as his or her priority.

4. Individuals who are hopeful, optimistic, and trusting; such individuals are key to an organization's capacity for change.

**Capable champions**[5]. Individuals, and hence organizations, tend to be inertial. In other words, change takes extra energy and it is much easier to keep doing things the way in which we are accustomed to. Consequently, organizations must identify, develop, and retain a cadre of capable change champions in order to lead the change initiative(s). Within small organizations, these champions are often the same as the head of the organization. Within medium and larger organizations, these champions are often drawn from the ranks of **middle management**[6].

Rosabeth Moss Kanter first identified this new breed of managers and she called them "change masters." She defined change masters as "those people...adept at the art of anticipating the need for, and of leading, productive change." Kanter (1983), p. 13. Professor Kanter's central thesis is that if an organization is to change and innovate, power needs to be focused on or delegated to certain talented and energetic individuals, or both.

These "corporate entrepreneurs" are experts in building formal and informal coalitions to makes changes and get things done within an established organization. They know how to directly and indirectly handle political opposition. They often lead a group of "mavericks" and "bend the rules" in order to bypass bureaucratic obstacles. They are often very goal directed and know how to deliver on their promises. In sum, these change champions are often "sponsored" by top management to spearhead change initiatives. If an organization does not have capable champions, change initiatives often stall.

**Involved middle management**[7]. Middle managers are those who link top executives to frontline workers. Department heads are classic examples of middle managers, but there are many other types of linkages. While it is undeniable that today's organizations are flatter hierarchies with fewer middle managers than in the past, their role in helping to bring about change is still important. While change champions often come from the middle management ranks, middle managers can passively or actively block change initiatives due to their unique position within an organization.

Steven Floyd and Bill Wooldridge were among the first scholars to note the importance of middle managers when focusing on strategy formation and **organization change**[8]. As they point out,

The capability-based model of competition puts managerial knowledge at the forefront of competitive advantage. The knowledge of middle managers may become crucial in recognizing an organization's shortcomings and in broadening its *capacity for change* [italics added]. Perhaps even more important, the middle manager's centrality in the information network creates the potential for them to

---

5. Managers, often mid-level management, who are able to influence others in an organization to adopt a proposed change.

6. Mid-level management personnel who have the potential to enhance the change capability of an organization.

7. Mid-level managers who are essential for bringing along a critical mass of employees to adopt a proposed change. They link top executives to frontline workers.

8. An organization's adopting a different course or direction in response to current problems or current and future opportunities. Also referred to as *organizational change.*

become a driving force in organizational learning. Realizing this potential, however, demands a new set of management expectations.Floyd and Wooldridge (1996), p. 23.

Whenever any new organizational change initiative is announced, one of the first things that employees consider is "how will this affect me?" While every organization is going to have doubters and naysayers, one of the keys to enhancing organizational change capacity is to get a critical mass of the organization excited about the potential change. Middle managers are pivotal figures in shaping the organization's response to potential change initiatives, so their involvement is crucial to organizational capacity for change.

**Systems thinking**[9]. Organizational change capacity involves more than just the "getting the right people on the bus and the wrong people off the bus," however. It also depends on a proper organization infrastructure. One of the key infrastructure issues that influence or retard an organizational change initiative is what is called "systems thinking." These are the rules, structural arrangements, and budgetary procedures that facilitate or hinder an organization-wide—as opposed to a "segmentalist"—approach to organizational change. While segmentalism works quite well for routine procedures, it is anathema to the study of nonroutine events such as strategic decision making, organizational change, or both.Kanter (1983), pp. 28–35.

Peter Senge is a seminal author in this area. In his classic 1990 text, titled *The Fifth Discipline*, Senge wrote about how systems thinking can enhance an organization's ability to experiment, adapt, and learn new ways of operating.Senge (1990). Systems thinking, according to Senge, focuses on how the individual being studied interacts with the other constituents of the system. Rather than focusing on the individual's or organizational units within an organization, it prefers to look at a larger number of interactions within the organization and in between organizations as a whole. In sum, an organizational infrastructure that promotes systems thinking is another key dimension of organizational change capacity.

**Communication systems**[10]. A second infrastructure dimension, and one that complements the systems thinking dimension, is what is called "communication systems." This dimension involves such things as e-mail networks, face-to-face meetings, telephone calls, and corporate announcements all being focused on the conveyance of the value for and the means for implementing a proposed organizational change. Organizational change requires reflection and action. Too often, there is a gap between thinking and doing.Pfeffer and Sutton (2000). Consequently, many observers of failed and successful organizational change

9. The rules, structural arrangements, and budgetary procedures that facilitate or hinder an organization-wide approach to organizational change.

10. The collective e-mail networks, face-to-face meetings, telephone calls, and corporate announcements that convey the value and means of implementing a proposed organizational change.

initiatives emphasize the importance of **communication**[11] in order to convert knowledge into action.

For example, John Kotter argues that almost every change leader fails to accurately estimate the frequency, range, and amount of communication required to bring about change.Kotter (1996). Malcolm Gladwell argues that in order for organizations to "tip" in a new direction, convincing and persuasive communication is essential.Gladwell (2002). And Ed Lawler and Chris Worley argue that effective formal and informal communication systems are essential to the creation of organizations that are "built for change."Lawler and Worley (2006). In sum, effectively designed and delivered two-way information about the change initiative is essential to building organizational capacity for change.

**Accountable culture**[12]. A fourth and final infrastructure dimension is the degree to which an organization holds its members accountable for results. In my observation, most organizations generally excel on this dimension. However, when the organizational culture gets focused on innovation, accountability often gets ignored. While individuals need autonomy in today's organizations to pursue innovative new ideas, they also need to be held accountable for delivering results on time and within budget. At the very least, they need to explain the failure to honor deadlines, resource constraints, or both.

Another term for an "accountable" culture is a "results-based" culture.Ulrich, Zenger, & Smallwood (1999). Accountable cultures do not focus on how the work is done, but they do help to carefully monitor the outcomes of results produced. As a result, accountable cultures track whether a deadline was reached or whether the activities were executed under budget or not, and seek to discern what teams and individuals hindered or facilitated successful change. Of course, change is inherently unpredictable so there must be some executive judgment involved with the evaluation of results. However, fostering innovation and change does not mean that innovators and change agents are given a blank check with no deadlines. In sum, organizational capacity for change is also dependent on effective reward and control systems.

**Innovative culture**[13]. Tom Peters and Bob Waterman wrote powerfully as to the importance of an organizational culture "in search of excellence" in their classic text on America's best-run companies.Peters and Waterman (1982). Similarly, John Kotter and Jim Heskett demonstrated a powerful correlation between corporate culture changes and subsequent firm performance improvements over 4 to 10 years of time.Kotter and Heskett (1992). And Clayton Christensen showed how corporate cultures often work to thwart innovation and change, particularly when the organization is a market leader.Christensen (1997).

11. Verbal or written information that is transmitted or conveyed.

12. An organizational culture that carefully monitors the outcomes of the results produced instead of focusing on how work is done.

13. An organizational culture that values innovation and change.

The culture of an organization defines appropriate behavior, and motivates individuals and offers solutions where there is ambiguity. It governs the way a company processes information, its internal relations, and its values.Hampden-Turner (1992), p. 11. Some organizational cultures value innovation and change, while many others value stability and equilibrium. In sum, an organizational culture that emphasizes the importance of organizational change and innovation is a third infrastructure dimension that is critical to organizational change capacity.

## 2.5 Concluding Thoughts About OCC

In response to pressures to deliver short-term results, leaders and organizations often neglect building their capability to be productive. This book provides a description of how to overcome that purely reactive focus so that the organization can survive and prosper over the longer term.

This capability, or organizational capacity for change as I call it, contains eight different dimensions—four of the dimensions focus on critical human capital and four focus on social infrastructure. Many authors have written insightful books and articles about aspects of organizational capacity for change, but few have attempted to synthesize these writings into a coherent whole. Furthermore, this concept has been rigorously developed and researched in the organizational sciences, having undergone peer review of several scientific articles about it.

The remainder of this book elaborates on what the leader's role is in creating organizational capacity for change, focuses on each of its eight dimensions in more depth, and provides practical ideas for diagnosing and enhancing your organizational capacity for change. In each subsequent chapter, I provide a detailed review of each dimension and discuss its relationship to organizational capacity for change. At the end of each chapter, seven actionable suggestions are made to help practitioners enhance this particular dimension of their organization.